The Board of Finance of the Consolidated City of Indianapolis and Marion County met on Friday, January 29, 2010, in Room 260 of the City-County Building, Indianapolis, IN. The following members were present:

Michael W. Rodman, Treasurer, Marion County
David Reynolds, Controller, Consolidated City of Indianapolis/Marion County
Greg Bowes, Assessor, Marion County
Michael Price, Chief Deputy Auditor, Marion County
Debra Hineline, Director, Financial Management, Indianapolis Public Schools

Also present:	Helen Watts	City of Indianapolis
	Tom Creasser	Treasurer's Office
	Barney Levengood	Capitol Improvement Board
	Troy Judy	Capitol Improvement Board
	Jeremiah Wise	Treasurer, Indianapolis Airport Authority
	Carolyn Adams	Indianapolis-Marion County Public Libraries
	Dan Sellers	Health and Hospital Corporation
	Mary Kitchen	Health and Hospital Corporation
	Wayne Oteham	Indianapolis Public Transportation Corporation
	Fred Armstrong	Indianapolis Public Transportation Corporation
	Nancy Dorsa	Chase Bank
	Carl Mills	Fifth Third Bank
	Jennifer Moll	Huntington Bank
	Kathy Carr	M&I Bank
	Fred Medley	Old National Bank

Mr. Rodman, Board of Finance President, called the meeting to order at 1:00 pm once it was determined that a quorum was present. Chief Deputy Auditor Michael Price was proxy for Auditor Billie Breaux. After members introduced themselves, Mr. Rodman stated that the first item of business was to approve Minutes from the January 30, 2009 meeting. A motion was made by Mr. Price and seconded by Mr. Bowes to approve the minutes, and they were unanimously approved.

Election of Officers 2009 Board of Finance: Mr. Price made a combined motion to elect Mr. Michael Rodman as President and to elect Greg Bowes as Secretary. The motion was seconded by Mr. Reynolds, and then unanimously approved.

Investment Officers' Reports:

Marion County Treasurer's Office: Mr. Rodman asked Mr. Creasser, Chief Deputy in the Treasurer's Office, to summarize the report for the Marion County Treasurer. Mr. Creasser noted that it had been a difficult year for interest earnings, falling short of expected targets. The report highlights Marion County's banking relationships – primarily with J.P. Morgan Chase Bank, supplemented by numerous other local banks to increase diversity – and details interest earnings – more than $3 million for 2009 compared to prior year interest earnings of more than $10 million. Mr. Creasser noted that high-yield savings accounts were often more favorable than comparable Certificates of Deposits (CD's), particularly when factoring in requirements for lengthy CD terms. Mr. Rodman then asked about Marion County investment term lengths. Mr. Creasser responded that a 180-day investment is considered long-term due to the nature of the County's collection/disbursal cycle. Mr. Reynolds wondered whether funds could be invested over a longer period based on substantial monthly account balances. Mr. Creasser explained that there is actually significant turnover based on varying fund disbursement schedules. Mr. Bowes also noted that these accounts periodically receive funds from maturing CDs.

Mr. Reynolds observed that the majority of County funds were deposited in banks, with the exception of Trust Indiana investments. He inquired whether the Treasurer's Office had any concerns about bank stability and account safety. Mr. Creasser and Mr. Rodman explained that current federal law provided protection, as well as coverage under the Public Deposit Insurance Fund (PDIF), although PDIF funds might not meet all needs in a theoretical worst-case scenario.

City of Indianapolis Office of Finance & Management: Mr. Rodman called on Helen Watts, Office of Finance and Management, to present the investment report for the City of Indianapolis. Ms. Watts concurred with Tom Creasser that investment returns for 2009 were extremely bleak, the worst in her career. The City earned a total return of more than $3 million; however substantial cash was kept on hand due to concerns about property tax income. Similar to the County's investment strategy, the City favored high-yield savings accounts over CD's to ensure that funds were easily accessible. Mr. Bowes asked Ms. Watts to clarify whether her concerns were related to delayed property tax revenue collection, and Ms. Watts concurred. She pointed out that the City closed the year with $140 million invested in government-backed securities, down from the more typical amount of $250 million. Most remaining funds were deposited with J.P.

Morgan Chase Bank, plus a smaller amount invested with Trust Indiana. Mr. Rodman thanked Ms. Watts and Mr. Creasser for their conservative investment strategies, ensuring the safety of public funds. Mr. Price and Mr. Bowes both noted that the City and the County had done very well with investment returns, considering historic low interest rates. Mr. Rodman agreed, citing the example of Treasury Bills with negative returns, and he expressed hope for an improved economy in 2010.

Capital Improvement Board of Managers of Marion County: Mr. Rodman introduced Barney Levengood, accompanied by Troy Judy, Assistant Controller, to present the report for the Capital Improvement Board/Indianapolis Convention Center (CIB). Mr. Levengood agreed that the investment market was very weak in 2009. He noted that CIB had less revenue to invest, plus they focused on short-term investments of 30 to 60 days, with an upper limit of 120 days. The Bank of New York serves as the trustee bank for CIB bonds. CIB also banks with National City Bank, M&I Bank, and Flagstar Bank. Interest earnings for the year totaled $266,269.95. Mr. Rodman asked about the average size of their investments. Mr. Levengood and Mr. Judy responded that they invest $12 million to $15 million each month. Mr. Reynolds asked them to clarify which investments used operating funds. In response, Mr. Levengood explained that this would include the $43 million invested with M&I Bank, supplemented by checking and savings accounts with National City, and funds overseen by the Bank of New York.

Mr. Bowes explained for the sake of the watching public that investments are not indicative of surplus revenue. Instead, government funds are invested during the short period of time between the collection of the funds and their subsequent disbursement to units of government. Mr. Rodman expanded on this point, noting that last year the Treasurer's Office advanced funds to government units that were facing cash flow difficulties due to delayed property tax collection and distribution. The Treasurer's priority is to be a good steward of taxpayer money by putting funds to use as quickly as possible. However, when delays occur due to the cyclical nature of cash flows, he wants government funds to be well invested to generate investment income.

Health and Hospital Corporation: Mr. Rodman called on Dan Sellers, Treasurer, and Mary Kitchen, Assistant Treasurer, to present the report for Health and Hospital Corporation. Mr. Sellers expressed gratitude for community support of the Health & Hospital facility improvement referendum. In terms of investment earnings, however, the organization had a difficult year. They earned $1.2 million in 2009, compared to $5.2 million the year before. Interest rates ranged from a high of 1.50% to a low of 0.20%. The majority of their balances, $187 million, were at Chase Bank, with smaller amounts of $4.5 million at M&I Bank, $16.3 million at National Bank of Indianapolis, and $16.5 million with Trust Indiana. As a hospital system, they have a tremendous need for liquidity, preferring three to four months working capital always on hand to meet unexpected obligations. For example, they may receive a last-minute demand to fund a multi-million dollar match to qualify for a Medicaid supplemental revenue program.

In reviewing the Health & Hospital investment report, Mr. Reynolds noticed and appreciated the inclusion of detailed account activity, suggesting that other government units also document investment purchases and sales in their next investment report. Per a question from Mr. Reynolds' regarding upcoming bonds, Mr. Sellers confirmed that Health & Hospital would be going to the capital markets the following week to issue construction-related debt. He shared the news that Standard & Poor's had given these new debts an AA+ rating. Mr. Sellers thanked Kevin Taylor and Deron Kintner of the Bond Bank, as well as the larger community, for their assistance. Mr. Reynolds then responded by praising Mr. Sellers's financial leadership, and the support of his staff, in securing this outstanding rating.

Indianapolis Airport Authority: Mr. Rodman asked Mr. Jeremiah Wise, Treasurer of the Indianapolis Airport Authority, to present his report. Mr. Wise noted that the Airport Authority generates almost 100% of their earnings from operational activities at the airport. They have banking relationships with the following banks: Bank of New York, overseeing $159 million at the end of the year as the trustee for their bond-related funds, particularly debt service reserve; J.P. Morgan Chase with $76 million in operational funds; and National City Bank of Indiana (now PNC) with nearly $47 million in investment funds. They also have a combined investment of $20 million in Local Investment Government Pools, with $4 million in Trust Indiana Fund earning 0.35% (35 basis points), and $16 million in the Hoosier Fund invested at 0.80% (80 basis points). Interest income in 2009 totaled about $4 million. One strategy that the Airport Authority uses to get higher rates of return is to place long-term reserve funds in a 30-year investment. Not only does this maximize their interest income at a rate around 5%, but since the funds actually mature every six months, the Airport still has access to their money if needed.

Mr. Price complimented Mr. Wise for incorporating yield information into his report to facilitate investment return comparisons across different years. Mr. Wise, in turn, suggested that a future version of the report could require average account balances to encourage analysis of yields, rather than focusing solely on end-of-month balances.

Indianapolis-Marion County Building Authority: Mr. Rodman explained that the Indianapolis Building Authority submitted their report to him since a representative was unable to attend the meeting. According to their investment report, the Building Authority earned $30,555.60 in interest income during 2009, and Mr. Price noted that investment funds averaged $9.1 million. Mr. Rodman plans to recommend to the Building Authority to consider using investment pools to maximize returns. Mr. Bowes pointed out that the Board of Finance even held a special meeting in 2009 specifically to inform units of government about Local Government Investment Pools, such as Trust Indiana. Mr. Price also noted that the Building Authority continues to use the same three banks, with funds concentrated in just two of these, in spite of Mr. Rodman's previous recommendation that they diversify their relationships with financial institutions.

Indianapolis Marion County Library Board: Ms. Carolyn Adams, Accounting Manager, explained that she was stepping in for Rebecca Dixon, Chief Financial Officer, who was unable to attend. As with other government units, the library faced low interest rates in 2009. In addition, due to payoffs on construction contracts, the library required tax warrants to ensure sufficient cash flow. They also received income from maturing CDs from Flagstar Bank, First Financial and M&I Bank. The library reduced their use of Sweep accounts in favor of better returns from high-yield savings accounts. Their interest income totaled $179,434 in 2009, compared to $846,028 the year before. The library also had funds with Trust Indiana. In addition, rather than investing in CD's, they had $12 million invested with the Hoosier Fund as of the end of year.

While praising the depth of their investment report, Mr. Rodman requested that the Library submit their materials a week ahead of time to give Board members sufficient time to review the content. Mr. Reynolds complimented the Library for including their investment policy within their report. He requested that all units of governments similarly submit their investment policies. Mr. Rodman concurred, and suggested that those who had already submitted investment policies to the Board should provide notification of any changes.

Indianapolis Public Schools: Mr. Rodman asked Ms. Hineline to present highlights from the Indianapolis Public Schools report. Ms. Hineline noted that IPS faced reduced interest earnings in 2009, similar to other government units. IPS had grown used to supplementing their operating budget with substantial interest income. However, as a result of the weak economy, IPS operating budgets will continue to be reduced for the foreseeable future. In 2009, IPS earned only $1.2 million in investment income, compared to $6 million the previous year. IPS primarily uses CD's for investment instruments; however they have found that financial institutions are less interested in bidding for their funds now that they have less to invest. As a result, IPS shows decreased banking diversity than in the past (in 2009, they banked with Chase Bank and National City Bank).

Indianapolis Public Transportation Corporation: Mr. Rodman asked Wayne Oteham, Chief Financial Officer, accompanied by Fred Armstrong, to present the report for the Indianapolis Public Transportation Corporation (IndyGo). Mr. Oteham explained that IndyGo earned only $51,000 in interest income during 2009, with interest rates of 0.50% interest (50 basis points) or less; that compares to about $300,000 earned the prior year with interest rates at 3.68% or less. Although IndyGo account balances were higher than those of the Building Authority, they earned less in interest income because much of their earnings go to offset fees charged by banks to process fare box proceeds, a very time-consuming and fee-intensive effort. As with the library, IndyGo has also moved from Sweep accounts to high-yield savings accounts. Mr. Oteham noted that the end-of-month account balances listed on their report are somewhat misleading due to substantial account activities throughout the month. IndyGo is actually a net borrower. They have up to $17 million on deposit from their general fund, $2 million from an insurance reserve fund, and $10 million from a cumulative fund. Mr. Oteham explained that they relied on tax warrants in 2009, as well as a corresponding $5 million tax anticipation loan which operates similar to a line of credit. Their cash flow needs are substantial in the first part of the year, while they collect much of their revenue later in the year from the Public Mass-Transportation Fund and excise funds.

Mr., Rodman thanked Mr. Oteham. He also praised Mr. Armstrong for his years of expertise in City/County finances, and asked him for his views on the financial difficulties facing government agencies. Mr. Armstrong replied that he had never encountered a more difficult economic year in his career. Mr. Reynolds likewise praised IndyGo and all the units of government for their efforts in ensuring that interest income is maximized, at the same time that funds are kept safe and diversified across financial institutions. Mr. Reynolds also noted that the property tax collection cycle will be returning to the normal cycle during 2010.

Other Business:

Mr. Rodman asked Mr. Creasser to share any updates on proposed Indiana General Assembly changes impacting the Public Deposit Insurance Fund (PDIF) under Senate Bill 238 and House Bill 1336. Mr. Creasser explained that Mr. Reynolds had expressed concern about the PDIF limit securing $300 million in invested government deposits, with Marion County alone exceeding that amount. Part of the proposed Senate Bill 238 would continue to secure an initial $300 million under PDIF, however additional invested government funds would require securitization (essentially collateral), to cover loss risks. Mr. Creasser pointed out that this would reduce returns on investment, possibly lowering interest income by as much as 15 to 35 basis points. He noted that this could also raise other issues, such as which investments would be covered under the initial $300 million, and whether pass-through funds in an account would require securitization.

Mr. Creasser also reported that the Marion County Treasurer has initiated a program collecting property tax payments on a monthly basis. This fosters a continual stream of revenue collection, ultimately reducing the need for costly government borrowing. In addition, the Treasurer is promoting investment cooperation among units of government, and investigating possible initiatives such as a county investment pool and tax participation warrants purchased by the Treasurer's Office. All efforts are to reduce borrowing costs for government units, while maximizing their investment income. Mr. Reynolds asked about using the Trust Indiana Fund as a government investment pool. Mr. Creasser agreed that Trust Indiana is definitely an investment option, although the problem of securitization is still an issue since Trust Indiana is required by law to deposit at least half of their funds in state depositories. At the end of last year, 77% of Trust Indiana deposits were in Indiana financial institutions. Mr. Rodman noted that the State Treasurer has estimated that there is between $5 billion and $12 billion of government funds deposited at any point within a year, while PDIF is only covering $300,000. Mr. Creasser agreed that this gap presents a very serious problem.

Mr. Rodman also highlighted an additional provision under consideration by the General Assembly which restricts funds deposited in any institution charging more than 21% interest on consumer credit cards. His concern is that restrictions on investments could ultimately result in lowered returns. Mr. Creasser added that legislation is also being considered to approve credit unions as financial institutions eligible for government investments. To examine the issue of risk in further detail, Mr. Rodman recommends that the Marion County Treasurer verify the total City/County funds deposited in any one financial institution. Mr. Reynolds added that invested government funds should also be tracked by investment type. Mr. Rodman concurred, while noting that not all of this information is currently available.

There being no further reports or discussion, the meeting was adjourned.

Michael W. Rodman, President

Attest:

Greg Bowes, Secretary